United States General Accounting Office

GAO

Briefing Report to the Chairman, Subcommittee on Nutrition and Investigations, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

July 1988

SUPPLEMENTAL FOOD PROGRAM

Savings From Food Purchases Could Increase WIC Participation

GAO/RCED-88-183BR

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-176994

July 25, 1988

The Honorable Tom Harkin
Chairman, Subcommittee on Nutrition
and Investigations
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

Dear Mr. Chairman:

As requested in your July 9, 1987, letter, and in subsequent discussions with your office, this briefing report provides calculations of how much might be saved and the number of eligible participants that might be added to the Special Supplemental Food Program for Women, Infants, and Children (WIC) if all states achieved cost savings similar to Maryland and Ohio in purchasing WIC food items, other than infant formula. This report is a follow-up of an earlier report entitled Supplemental Food Program: Using Cost Saving Methods Could Increase Participation (GAO/RCED-88-35BR, Oct. 9, 1987), in which we addressed how much might be saved and the number of additional eligible participants that might be served if all states achieved similar savings as those states that have adopted competitive bidding or rebate methods to purchase infant formula only.

To provide some perspective on possible savings, we looked at two states--Maryland and Ohio--that have tried cost saving methods. Maryland has reported savings of about 2 percent. If duplicated nationally, this rate would equal about $18.5 million in savings, which could finance up to about 46,000 additional participants. Ohio reported savings of about 14 percent which would equate to about $129.4 million nationally--enough to finance up to about 321,900 additional participants.

These calculations are based on extrapolations of the estimated cost savings in fiscal year 1987 in Maryland and Ohio from purchasing nonformula WIC food items at less than the average retail cost. We did not determine reasons for the difference in savings rates between the two states.

Because Maryland and Ohio currently pay retail prices on food items for some WIC participants while purchasing, through competitively bid contracts, the same food items for other participants, we could calculate the savings that were achieved by these states by using cost saving measures. Because these two states do not constitute a statistically valid national sample, the actual experience of other states attempting to implement a cost savings program might produce different results; thus, these extrapolations to the national level must be interpreted and used with caution.

The WIC program, administered by the Department of Agriculture's Food and Nutrition Service (FNS), is a federally funded nutrition assistance program. It is designed to provide supplemental foods, nutritional education, and access to health services to eligible, low-income participants. Each participant receives individually prescribed food packages containing items such as infant formula, milk or milk products, iron-fortified cereal, juice, eggs, and dried beans or peanut butter.

States, through their local health care agencies, provide food packages to eligible WIC participants by one of three food distribution systems, or a combination of these systems--retail purchase, home delivery, and direct distribution. Under retail purchase, participants receive monthly vouchers that are redeemable for WIC food items at local food stores. Food is delivered directly to the participant's home under home delivery. Under direct distribution, participants pick up their food at a distribution center.

Maryland and Ohio provide food to WIC participants through a combined retail purchase and home delivery distribution system. The home delivery portion of the distribution system is where these two states have contract prices for WIC food items and where the potential for savings exists.

Our calculations of the number of additional eligible participants that might be served are based on the assumption that any savings achieved will be used to purchase only food for additional eligible WIC participants. However, the Commodity Distribution Reform Act and WIC Amendments of 1987 (P.L. 100-237), dated January 8, 1988, amends the WIC program retroactive to October 1, 1987. The act allows a portion of any savings states achieve through cost reduction strategies including competitive bidding and rebate methods to be applied toward financing the increased

administrative costs associated with increased participation.

The act does not specify how much of the savings states can use to defray administrative costs. However, in July 1988, FNS published interim regulations to determine how much of any savings each state may apply to administrative costs associated with increased participation. FNS expects to issue final regulations by the end of fiscal year 1989. Recognizing this, the amounts we calculated to be potentially available to service additional participants as well as the number of potential participants that may be added to the program would be reduced to the extent that savings are used for administrative purposes.

Section 1 of this briefing report contains information on the WIC program's background and current operations. Section 2 elaborates on our estimates of the savings and increased participation based on the experiences in Maryland and Ohio. Section 3 provides a description of the objectives, scope, and methodology of our analysis, as well as the limitations of the extrapolations.

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We discussed the information in this report with officials at FNS and the states we reviewed and incorporated their comments where appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days after its issue date. At that time, we will send copies of the report to the Director, Office of Management and Budget; the Secretary of Agriculture; and other interested parties. Copies will be made available to others upon request. Should you need further information, please call me at (202) 475-4880.

Major contributors to this briefing report are listed in appendix I.

Sincerely yours,

John W. Harman
Associate Director

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ABBREVIATIONS

FNS	Food and Nutrition Service
GAO	General Accounting Office
WIC	Special Supplemental Food Program for Women, Infants, and Children

SECTION 1

INTRODUCTION

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is a federally funded nutrition assistance program which provides supplemental foods, nutritional education, and access to health services to low-income pregnant, breastfeeding, and postpartum women; infants; and children up to 5 years old.

The WIC program originated as a 2-year pilot project, authorized in September 1972 as an amendment to the Child Nutrition Act of 1966. The program's food assistance aspect was intended to operate as an adjunct to ongoing prenatal and pediatric health care, thereby reducing nutrition-related health problems of pregnancy, infancy, and childhood.

WIC's underlying premise continues to be that substantial numbers of pregnant, breastfeeding and postpartum women, infants, and children from low-income families are at risk because of inadequate nutrition, inadequate health care, or both.

HOW THE PROGRAM OPERATES

At the federal level, WIC is administered by the Department of Agriculture's Food and Nutrition Service (FNS). FNS provides cash grants to authorized agencies of each of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, the Northern Marianas Islands, Trust Territory of the Pacific Islands, Guam, and Indian groups recognized by the Departments of the Interior or Health and Human Services. The state agencies then provide funds to local agencies, such as public or private nonprofit health and human service organizations, that certify program eligibility and provide services to WIC participants.[1] Although WIC program funds are not used to pay for health services, the program encourages WIC participants to make use of existing services such as prenatal and postpartum medical supervision and preventive therapeutic infant and child care.

To qualify for the WIC program, women and children must be individually certified by a competent professional (such as a

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[1]The term "participant" as used in this report refers to "participant slots" rather than individuals. This means that during the year, an individual may use all their eligible time before the year has elapsed which would allow a replacement to enter the program. Thus, the number of individuals receiving WIC benefits during a year may be greater than the number of participants.

nutritionist, dietician, nurse, or physician) to be nutritionally at risk because of medical reasons or an inadequate diet. Participants must also have low incomes. Low income is specified as gross family income that does not exceed 185 percent of the nonfarm poverty income defined by the Office of Management and Budget. State WIC agencies have the option to set more stringent eligibility requirements (but not less than 100 percent of the poverty level), as long as the income requirements correspond to the state's income standards for free or reduced price health care. Generally, WIC participants (except for pregnant women) must be recertified every 6 months to continue in the program. However, infants under 6 months may be certified up to 1 year of age provided the quality and accessibility of health care services are not diminished.

In fiscal year 1987, an average of about 3.4 million persons were enrolled in the program in any given month at an annual cost of approximately $1.7 billion. Because WIC has to operate within congressional funding levels, not every eligible woman, infant, or child can participate in the program. According to a 1987 U.S. Department of Agriculture study, based on 1984 data, about 10 million people met the WIC program family income criterion.[2] The Department estimates that only 40 to 50 percent of these people are participating in the program.

Each participating woman, infant, or child receives individually prescribed packages of foods high in protein, iron, calcium, and vitamins A and C. The food packages contain items such as infant formula, milk or milk products, iron-fortified cereal, juice, eggs, and dried beans or peanut butter. WIC foods are intended to be a supplement to foods normally purchased by participants through other means such as family income or benefits received from other feeding or welfare programs.

There are three principal food distribution systems--retail purchase, home delivery, and direct distribution--that states[3] use to deliver food packages to WIC participants. Some states use a combination of these systems--retail purchase for some of their participants and home delivery for their other participants.

-- Retail purchase system. Participants receive monthly vouchers which they take to preapproved local food stores, select the food (from an approved list), and exchange the vouchers for the WIC food. In turn, the food stores are reimbursed by the WIC state agencies. This system is used by 46 states.

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[2]Estimation of Eligibility for the WIC Program, USDA, July 1987.

[3]For the purposes of this report, the term "states" means the 50 U.S. states.

-- Home delivery system. State agencies generally award a contract through competitive bidding for the purchase and delivery of food by a vendor. The vendor, a local dairy company in Maryland and Ohio, delivers the WIC foods directly to the participant's home. The vendor is reimbursed for the food and delivery charges. Maryland, Ohio, and Vermont serve a portion of their participants under this system and the other portion under retail purchase.

-- Direct distribution system. Mississippi is the only state that uses direct distribution. WIC foods are purchased directly on a wholesale basis by the state agency which maintains them in local warehouses. Participants then come to a distribution center to pick up their food.

1988 LAW ENCOURAGES COST SAVING INITIATIVES IN PURCHASING WIC FOODS

The Congress appropriated $1.802 billion to carry out the WIC program in fiscal year 1988. It is mandated that 80 percent of these funds be allocated for food benefits and 20 percent for administrative costs, nationwide.[4] Also, prior to October 1987 program regulations required that any savings states achieved through cost savings practices must be used solely to purchase food for additional eligible participants.

In an effort to encourage states to increase participation in the program, the Commodity Distribution Reform Act and WIC Amendments of 1987 (P.L. 100-237) was signed into law on January 8, 1988. The amendments to the WIC program mandated by this act are retroactive to October 1, 1987. The act encourages states to reduce food costs and expand participation by adopting cost saving initiatives such as competitive bidding or rebates.[5] States are allowed to use part of any funds originally allocated for food but saved through cost reductions to finance the increased costs of nutrition services and program administration associated with the increase in participation.

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[4]Administrative costs include such items as salaries for state and local agency employees, eligibility certification processing, and nutritional education.

[5]A rebate system can be either a "closed" one where only one manufacturer of a product allows a refund of a portion of the retail price of the product if WIC participants use only this manufacturer's product, or an "open" one where participants are free to choose the products and all manufacturers give a rebate.

The act requires the Secretary of Agriculture to develop a formula to determine how much of a state's savings from cost saving initiatives can be converted to paying for its costs of administering the program associated with the participation increase. States must estimate the increase in participation resulting from these initiatives and document how the estimate was developed.

In July 1988, FNS published interim regulations to determine how much of any savings through reductions in food costs each state may apply to costs associated with increased participation. FNS expects to issue final regulations by the end of fiscal year 1989. (We analyzed the impact of applying 10 and 20 percent of any savings achieved to the increased administrative costs of adding participants, see footnote 3, page 10.)

The President of the National Association of WIC Directors told us that in response to the new law, about eight states are planning to initiate competitive bidding and/or rebate systems to achieve savings from the purchase of WIC food items (mainly infant formula) in fiscal year 1988. As of July 1988, two other states--Texas and Florida--had established a competitive bidding system whereby the company offering the highest rebate per can earned a contract to supply 13 ounce milk-based infant formula for all WIC infants statewide.

SECTION 2

CALCULATED SAVINGS AND INCREASED PARTICIPATION BASED ON THE EXPERIENCES IN MARYLAND AND OHIO

This section provides our calculation of the number of eligible WIC participants that might be added to the program if all states could reduce their food costs, excluding infant formula, by adopting cost saving measures and applying any savings to costs associated with increased program participation.

We based our calculations on two states--Maryland and Ohio--that contract through competitive bidding to purchase nonformula WIC food items at less than the retail price. As stated earlier, Maryland and Ohio provide food to WIC participants through a combined retail purchase and home delivery distribution system. These states use competitive contracting on the home delivery portion of the distribution system, which is the source of the potential savings.

Maryland reported a savings rate of about 2 percent. We calculate that if duplicated nationally, this rate would equal about $18.5 million in savings, which could finance up to about 46,000 eligible participants. Ohio reported a savings rate of about 14 percent which we calculated equates to about $129.4 million in savings, nationally--enough to finance up to about 321,900 eligible participants.

Our calculations are based on extrapolations of the reported experiences of these two states which currently pay retail prices on food items, excluding infant formula, for some WIC participants while achieving savings on the same food items for other participants. Maryland and Ohio do not constitute a statistically valid national sample, and are meant only to be illustrative of what could happen if all states were able to duplicate the experience of these two states.

COMPUTATION OF ESTIMATED SAVINGS AND ADDITIONAL ELIGIBLE PARTICIPANTS

For Maryland and Ohio we calculated the difference between (1) the estimated monthly average retail costs for food per participant and (2) the estimated monthly average contract costs for food per participant. To exclude infant formula from these costs, we reduced both the retail and contract costs by 36 percent which is what FNS estimates (based on 1986 food costs) will be spent for infant formula, nationwide, in fiscal year 1988.

Our calculation of potential savings in Maryland and Ohio is based on an average of estimated retail cost and reduced contract

cost weighted by the proportion of participants served under each part of the state's distribution system (57 percent of the participants in Maryland and 60 percent of the participants in Ohio are served under home delivery, or reduced price contracts).[1] We then expressed the difference between retail and contract costs for all other foods, excluding formula, as a percentage of the retail price--about 2 percent for Maryland and about 14 percent for Ohio.[2]

We determined the WIC funds appropriated for fiscal year 1988 for food items, excluding infant formula, to be $924 million. We multiplied the $924 million by Maryland's and Ohio's potential savings as a percentage of average retail nonformula food costs per participant to calculate how much might be saved if all states could duplicate the savings rates estimated for these two states. Our calculations are that about $18.5 million could be saved, if all states were able to achieve Maryland's estimated 2 percent savings rate or about $129.4 million could be saved, if all states could achieve Ohio's estimated 14 percent savings rate.

To calculate the additional eligible participants that might be added to the program in fiscal year 1988 we used FNS' average monthly food cost per person, nationwide, which was $33.49. Using the $33.49 per participant monthly food cost, we computed an annual food cost per person of $402. By dividing the $402 annual food cost into the extrapolated savings at the national level based on Maryland's and Ohio's experience, we calculated that about 46,000 or about 321,900 additional participants might be added to the program if all states could duplicate the savings rates achieved in Maryland and Ohio, respectively.[3] The extrapolation of additional participants includes all participants whether receiving infant

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[1]Because both of these states have a combined retail purchase and home delivery system to distribute food items, we used an average of prices from each part of the system weighted by the proportion of the WIC participants served under each to compute our extrapolations of savings. If we had applied the home delivery price to 100 percent of the state's WIC participants, the estimated savings achieved would have been overstated.

[2]We did not use present value analysis because the cost data spanned only 2 years.

[3]Our calculations assume that any savings achieved will be applied to purchasing only food for additional eligible participants. However, if we assume states apply 10 percent of any savings to increased administrative costs, the calculated savings and number of additional participants would become about $16.7 million and 41,400 based on Maryland's savings rate and about $116.5 million and 289,700 based on Ohio's savings rate. Assuming a 20-percent administrative cost allowance, these figures change to about $14.8 million and 36,800 additional participants based on Maryland's savings rate, and about $103.5 million and 257,500 additional participants based on Ohio's savings rate.

formula or all other food items. However, because Mississippi, Maryland, and Ohio are already employing cost savings strategies in providing WIC participants with food, these states will not likely achieve additional savings and, to that extent, our extrapolation of nationwide savings as well as additional participants is somewhat overstated.

Tables 2.1 and 2.2 summarize our computations of estimated savings and additional participants based on the experiences in the states of Maryland and Ohio, respectively.

Table 2.1

Calculation of Savings and Additional WIC Participants
Based on the State of Maryland's Estimated Cost Savings

Average monthly food costs—all WIC food items—per participant served under Maryland's retail purchase system in fiscal year 1987	$32.34
Minus infant formula (36%[a] of total food costs, nationwide)	-11.64
Average monthly food cost per participant, excluding infant formula (retail)	$20.70
Average monthly food costs—all WIC items—per participant served under Maryland's home delivery system in fiscal year 1987	$31.21
Minus infant formula (36%[a] of total food costs, nationwide)	-11.24
Average monthly food costs per participant, excluding infant formula (home delivery)	$19.97
Potential savings (average retail cost minus an average of retail and contract costs weighted by the proportion of participants served under each) ($20.70 x .43 + $19.97 x .57 = $20.28)	$20.70 -20.28 $ .42
Potential savings as a percentage of average food costs per participant (retail)	$ .42 / $20.70 = 2%
Amount of WIC appropriation spent for all food items excluding infant formula	$924 million
Multiplied by Maryland's savings rate equals	x.02
Savings if all states could duplicate Maryland's experience	$18.5 million
Number of additional participants that might be added to the WIC program nationwide equals $18.5 million divided by the average annual cost per person (assumes all savings used for food and an average cost of $33.49 per participant per month multiplied by 12 for a yearly per person cost of approximately $402)	46,000[b] additional participants

[a]All percentage figures used in the savings calculations have been rounded to the nearest percent.

[b]The number of additional participants has been rounded to the nearest 100.

Table 2.2

Calculation of Savings and Additional WIC Participants Based on the State of Ohio's Estimated Cost Savings

Average monthly food costs--all WIC food items--per participant served under Ohio's retail purchase system in fiscal year 1987	$29.47
Minus infant formula (36%[a] of total food costs, nationwide)	-10.61
Average monthly food costs per participant excluding infant formula (retail)	$18.86
Average monthly food costs--all WIC food items--per participant served under Ohio's home delivery system in fiscal year 1987	$22.54
Minus infant formula (36%[a] of total food costs, nationwide)	- 8.11
Average monthly food costs per participant excluding infant formula (home delivery)	$14.43
Potential savings (average retail cost minus an average of retail and contract costs weighted by the proportion of participants served under each) ($18.86 x .40 + $14.43 x .60 = $16.20)	$18.86 -16.20 $ 2.66
Potential savings as a percentage of average food costs per person (retail)	$\frac{\$\ 2.66}{\$18.86} = 14\%$
Amount of WIC appropriation spent for all food items excluding infant formula	$924 million
Multiplied by Ohio's savings rate equals	x.14
Savings if all states could duplicate Ohio's experience	$129.4 million
Number of additional participants that might be added to the WIC program nationwide equals $129.4 million divided by average annual cost per person (assumes all savings used for food and an average cost of $33.49 per participant per month multiplied by 12 for a yearly per person cost of approximately $402)	321,900[b] additional participants

[a]All percentage figures used in the savings calculations have been rounded to the nearest percent.

[b]The number of additional participants has been rounded to the nearest 100.

SECTION 3

OBJECTIVES, SCOPE, AND METHODOLOGY

On July 9 1987, the Chairman, Subcommittee on Nutrition and Investigations, Senate Committee on Agriculture, Nutrition, and Forestry, requested that we determine how many additional eligible WIC participants might be served at no increase in cost to taxpayers in fiscal year 1988 if all states adopted a competitive bidding or rebate method to purchase (1) infant formula and (2) all other commodities used in the WIC program.

In an October 1987 report[1] to the Chairman, we focused on the savings and increased participation from the purchase of infant formula only. We initially focused on infant formula because it represents the largest percent of food funds appropriated for a single item in the WIC program--about 36 percent, nationwide, in fiscal year 1988.

The objectives of this report were to

-- identify those states purchasing other WIC food items through competitive contracts or obtaining rebates when purchasing such items,

-- estimate the savings rate in those states from competitive purchase, and

-- estimate the potential savings and the number of eligible WIC participants that might be added to the program in fiscal year 1988 if all states could achieve savings rates similar to the estimated savings rates in the states we identified.

Through discussions with FNS and the President of the National Association of WIC Directors, we identified only three states--Maryland, Mississippi, and Ohio--with fiscal year 1987 contracts for WIC food items, other than infant formula, obtained by competitive bidding at less than retail price. The Mississippi WIC Director could not provide us with the average retail costs for WIC food items to compare with the average contract costs for these same items to compute this state's savings. Accordingly, we were unable to determine Mississippi's average retail costs for WIC food items, and therefore, Mississippi is not included in our analysis.

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[1] Supplemental Food Program: Using Cost Saving Methods Could Increase Participation (GAO/RCED-88-35BR, Oct. 9, 1987).

We obtained fiscal year 1987 data for Maryland and Ohio on

-- the total cash grant each state received from FNS to administer the program,

-- the total annual costs of WIC food items,

-- the monthly average retail costs and average contract costs for food per participant,

-- the number of program participants, and

-- the proportion of participants that are provided food through retail purchase or home delivery.

FNS provided fiscal year 1988 data that included

-- estimates of the percentage of the program appropriations that will be spent to purchase WIC food items nationwide and

-- the number of eligible WIC participants that might be served per month with an appropriation for the program of $1.802 billion.

It should be noted that although Maryland, Mississippi, and Ohio receive reduced prices for WIC foods through competitive bidding, it is not the only, nor necessarily the preferred, means of achieving savings on WIC food items. For example, we found in our earlier work on this issue[2] that Oregon and Tennessee were able to achieve savings from purchases of infant formula through obtaining rebates from the infant formula manufacturers. However, no states currently obtain rebates on WIC food items other than infant formula.

Our methods for calculating savings and increased participation are discussed in section 2. The following describes the information we used to make our estimates. We used savings that Maryland and Ohio reported through competitive bidding in fiscal year 1987. We chose fiscal year 1987, even though these states also have entered into fiscal year 1988 contracts to purchase WIC food items at prices less than retail, because fiscal year 1988 retail costs were not available with which to calculate these states' savings.

Maryland's and Ohio's WIC program directors provided us pertinent data including (1) the estimated monthly average retail costs for food per participant and (2) the estimated monthly average contract costs for food per participant. Generally, states

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[2]See footnote on page 14.

collect data on the monthly food expenditures and the monthly participation. By dividing the monthly expenditures by the monthly participation, states arrive at the average food cost per participant. This calculation, however, does not breakout the categories of food received nor does it identify the type of participant receiving it.

Because neither Maryland nor Ohio could provide us with the percentage of food costs spent for infant formula under both the home delivery and retail purchase systems, we used FNS' national average of approximately 36 percent. Use of this average could understate or overstate achievable savings if the states actual experience is higher or lower, respectively.

According to FNS data, in fiscal year 1988 the average monthly cost per WIC participant, nationwide, was about $41.55--$8.06 administrative cost and $33.49 food cost. The $33.49 average monthly food cost per participant, nationwide, includes participants served by retail purchase, home delivery, and direct distribution systems (or combination systems). It also includes infant formula costs.

We used $33.49 instead of $41.55 in calculating the estimated additional participants that might be added to the program because to have used $41.55 implicitly assumes $8.06 (or 20 percent) for administrative costs. The percentage of any savings that can be spent on additional administrative costs has not yet been determined. When it is determined, the number of potential eligible participants that might be added to the program will be reduced commensurately.

We did not calculate the total potential savings and increased program participation that Maryland and Ohio might achieve individually, but rather what the potential savings and increased participation might be if all states could achieve savings rates similar to these two states' experiences. These two states do not constitute a statistically valid national sample. Further, because Maryland, Mississippi, and Ohio are already achieving savings in providing WIC participants with nonformula food items, it is unlikely that these states will achieve additional savings. Therefore, our extrapolations of nationwide savings and additional participation may be somewhat overstated and should be viewed with these limitations in mind.

We conducted our analysis from November 1987 to June 1988 at FNS' headquarters office in Alexandria, Virginia, and through discussions with the President of the National Association of WIC Directors and program directors in Maryland, Mississippi, and Ohio.

APPENDIX I

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